

Message Text

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ACTION TRSE-00

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FM AMEMBASSY MANILA
TO SECSTATE WASHDC 4338
AMCONSUL HONG KONG

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HONG KONG FOR TREASURY REPRESENTATIVE

E. O. 11652: NA
TAGS: EFIN, RP
SUBJECT: GOP COMES TO AID OF GENERAL BANK AND TRUST, AT A PRICE

REF: MANILA 19564

1. SUMMARY: THE "ILLIQUIDITY" OF FILCAPITAL DEVELOPMENT HAS CAUSED A RUN ON ITS AFFILIATE, GENERAL BANK AND TRUST (GENBANK). THE CENTRAL BANK (CB) WILL ASSIST BY EXTENDING EMERGENCY ADVANCES OF UP TO 150 MILLION PESOS. THE PRICE FOR THIS HELP IS TURN-OVER OF MANAGEMENT CONTROL TO THE LAND BANK OF THE PHILIPPINES, WHICH WILL ACQUIRE EQUITY VALUED AT 40 MILLION PESOS OR MORE. THIS IS THE SECOND TIME IN TWO YEARS THAT THE CB HAS THROWN A ROPE TO GENBANK.
END SUMMARY

2. AS REPORTED IN REFTEL, FILCAPITAL DEVELOPMENT CORP., WHICH HAS TEMPORARILY SUSPENDED MARKET OPERATIONS DUE TO "ILLIQUIDITY," IS A SUBSIDIARY OF GENERAL BANK AND TRUST (GENBANK). FILCAPITAL'S TROUBLES INSPIRED A RUN, ON GENBANK,
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WHICH WAS ESPECIALLY HEAVY ON DECEMBER 17 AND 20. CENTRAL BANK (CB) GOVERNOR LICAROS ISSUED ASSURANCES THAT GENBANK REMAINED SOLVENT, BUT THAT EMERGENCY ASSISTANCE BY THE CB WAS REQUIRED. ACCORDING TO ONE PRESS ACCOUNT, LICAROS WAS FRANK ABOUT FILCAPITAL'S TROUBLES, ATTRIBUTING THEM TO MISMANAGEMENT OF ASSETS. HE ALSO, HOWEVER, REPORTEDLY

ACKNOWLEDGED THAT THE CB'S SUSPENSION OF TEMPORARY OVERDRAFTS (A MEASURE TO RESTRAIN MONEY SUPPLY GROWTH) WAS AN IMPORTANT FACTOR. FILCAPITAL APPARENTLY HAD EXTENSIVE OVERDRAFTS WITH GENBANK.

3. THE CB HAS IMMEDIATELY MOUNTED A RESCUE OPERATION. DETAILS HAVE BEEN THE SUBJECT OF CONFLICTING PRESS ACCOUNTS, BUT ONE OF LICAROS' SPECIAL ASSISTANTS WORKING ON THE PROBLEM HAS CONFIRMED SOME OF THE MAIN FEATURES FOR US. FOLLOWING IS AN OUTLINE OF THE PROPOSED SOLUTION:

A. THE LAND BANK OF THE PHILIPPINES (LBP) WILL TAKE OVER TWO-THIRDS OF THE SEATS ON THE BOARD OF DIRECTORS THROUGH ISSUANCE OF IRREVOCABLE PROXIES, THUS UNSEATING THE YUJUICO FAMILY, WIDELY REGARDED AS THE SOURCE OF GENBANK'S AND FILCAPITAL'S PROBLEMS.

B. TWO-THIRDS OF GENBANK'S CAPITAL STOCK WILL BE CONVERTED TO LBP OWNERSHIP, THE CAPITAL FOR WHICH WILL COME FROM THE CB. NEWS ACCOUNTS HAVE REFERRED TO 40 MILLION PESOS VALUATION FOR THIS STOCK, BUT OUR CB SOURCE INDICATED IT WILL BE MORE.

C. THE CB WILL EXTEND EMERGENCY ADVANCES TO GENBANK. THE TOTAL APPROVED IS 150 MILLION PESOS.

4. THIS IS THE SECOND TIME THAT THE CB HAS ASSISTED GENBANK. IN 1974, GENBANK ALSO SUFFERED A RUN ON DEPOSITS, IN THE WAKE OF THE FAILURE OF CONTINENTAL BANK, WHICH RESULTED IN EMERGENCY CB ADVANCES TO THE BANK OF 240 MILLION PESOS.

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5. COMMENT: THE FINANCIAL COMMUNITY, PARTICULARLY THE INVESTMENT HOUSES, ARE NOT ENTIRELY HAPPY WITH THIS EPISODE. AMONG THE POINTS THAT HAVE BEEN MADE, PUBLICLY OR PRIVATELY, ARE: 1) YUJUICO FAMILY MISMANAGEMENT IN FILCAPITAL AND GENBANK WAS WIDELY KNOWN, AND FILCAPITAL'S PARLOUS FINANCIAL HEALTH HAD BEEN RUMORED FOR SOME TIME. THE CB'S QUICK REACTION IS EVIDENCE THAT TROUBLE WAS ANTICIPATED. 2) THE CONTRAST BETWEEN CB'S ATTITUDE TOWARD FILCAPITAL AND GENBANK UNDERSCORES ITS BIAS AGAINST INVESTMENT HOUSES. 3) IF GENBANK CAN BE BAILED OUT, NOT ONCE BUT TWICE, WHY COULD CONTINENTAL NOT BE SAVED IN 1974? THE EMBASSY DOES NOT KNOW WHETHER THE IMPLIED ANSWER--POLITICAL CONNECTIONS-- HAS ANY FOUNDATION.
SULLIVAN

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